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US Financial Reporting of the Future: What Role Will IFRS Play?

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IFRS – A Brief History

History of International Accounting Standards

“There is need for an international language of accounting....”

AICPA
American Institute of Certified Public Accountants

CA
Chartered Accountants of Canada

THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES

Chairman U.S. Securities Exchange Commission
1950

Accountants International Study Group (AISG)
1967

International Accounting Standards Committee
1973

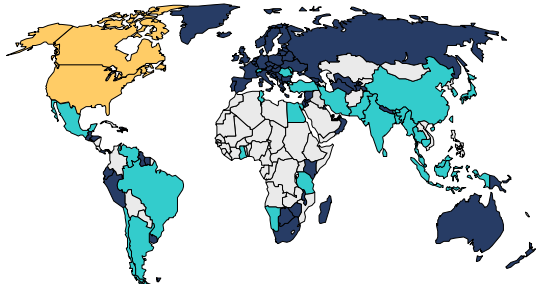
IASB
2002

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IFRS versus U.S. GAAP

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IFRS Implementation Around the World (2005)



■ IFRS or fixed date for implementation ■ U.S. GAAP and/or convergence intended
■ Convergence plans ■ No/unknown convergence plans

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4

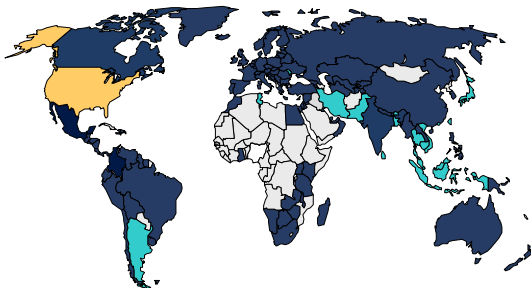
“Wave II”

- Korea 2011: IFRS mandatory for listed businesses
- Japan Large-publicly traded companies given option to adopt IFRS for years ending March 31, 2010 – decision on mandatory adoption still pending (IFRS Foundation opened regional office in Asia-Oceania in November 2012)
- China GAAP Substantially Converged with IFRS
- Brazil Listed companies and banks use IFRS starting from 2010, IFRS incorporated into Brazilian GAAP
- Canada 2011: Reporting under IFRS for publicly accountable entities, private companies permitted to use IFRS
- Mexico 2012: Publicly accountable entities

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5

IFRS implementation around the world (2013)



■ IFRS permitted or required ■ U.S. GAAP and/or convergence intended
■ Convergence plans ■ No/unknown convergence plans

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6

Facts about IFRS around the world

- IASB Surveyed 122 jurisdictions
 - 101 require IFRS for all or most domestic publicly accountable entities
 - 10 permit IFRS for those entities (includes Japan and India)
 - 2 require IFRS for financial institutions
 - 2 are in the process of adopting IFRS
 - 7 use national GAAP:
 - This group includes U.S.
- According to IASB, “modifications to IFRS are rare”
 - Deferral of effective dates more common

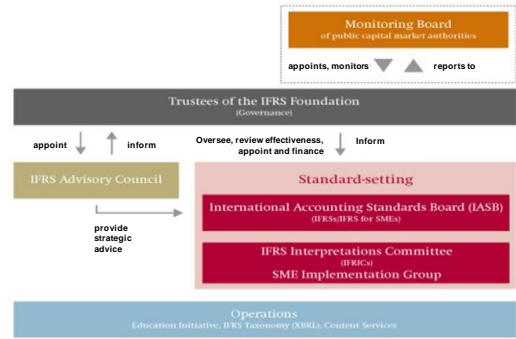
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7

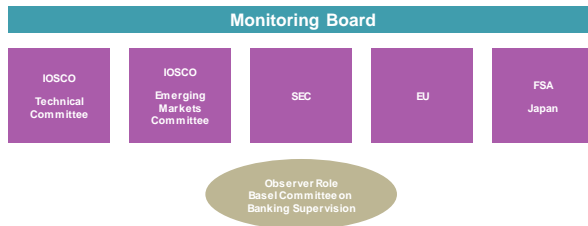
Endorsement Process Around the World

- No endorsement required: 52 jurisdictions
- EU endorsement process: 33 jurisdictions
- Endorsement by professional accounting body: 10 jurisdictions
- Endorsement by a governmental agency: 12 jurisdictions
- Endorsement by both professional body and governmental agency: 6 jurisdictions

IFRS Foundation Governance Structure



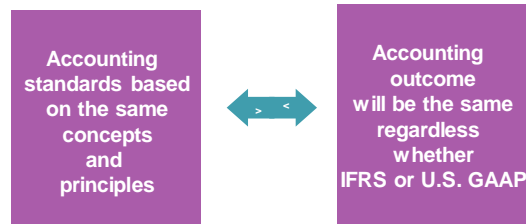
IFRS Foundation Governance Structure (continued)



Note: Composition of the Monitoring Board may change in response to the Governance Review of the Monitoring Board (Final Report issued in February 2012)

Accounting Convergence

What is Convergence?



Convergence Plan



- Norwalk Agreement (September 2002)
 - FASB and IASB pledged to make their existing financial reporting standards fully compatible and coordinate future work programs to ensure compatibility is maintained
- Memorandum of Understanding between FASB and IASB (February 2006)
 - Commitment to achieve convergence
 - Sets guidelines on how to approach the task
 - Presents standard-setting goals to be accomplished by the end of 2008
- Updated Memorandum of Understanding (September 2008)
 - Presents standard setting goals to be accomplished by the end of 2011



The 2006 MoU

Discussions by the FASB and the IASB regarding their approach to the convergence program indicated agreement on the following guidelines:

- Convergence of accounting standards can best be achieved through the **development of high quality, common standards over time**
- Trying to eliminate differences between two standards that are in need of significant improvement is **not the best use of the FASB’s and the IASB’s resources—instead, a new common standard should be developed that improves the financial information reported to investors**
- Serving the needs of investors means that the boards should seek to **converge by replacing weaker standards with stronger standards**

Report of IASB and FASB to G20 Finance Ministers, February 2013:

- Most of the short-term projects and several of the longer-term projects have been completed or are nearing completion
- In 2012 the boards made significant progress on the remaining joint projects and they continue to appreciate the importance of developing converged accounting standards

MoU Projects and Status According to FASB/IASB Update

Major Projects	Reported Status	Additional Information
Business Combinations	Completed	Mostly converged standards issued 2007/2008
Consolidations	Completed	FASB efforts ongoing; not fully converged
Fair Value Measurement Guidance	Completed	Mostly converged standards issued 2011
Liabilities and equity distinctions	Reassessed as a lower priority project	No longer on active agenda
Performance Reporting/Financial Statement Presentation	Completed	Only with respect to reporting comprehensive income
Post-retirement Benefits	Completed	Standards not converged in several important respects
Revenue Recognition	In process	
Derecognition	Completed	Similar disclosures, but derecognition models not converged

MoU Projects and Status According to FASB/IASB Update

Major Projects	Reported Status	Additional Information
Financial Instruments	In process	
Intangible Assets	Not a priority	
Leases	In process	
Insurance Contracts	ED issued in July 2013	Several key differences. “Obstacles to finding a converged solution may be difficult to overcome”
Investment Entities	IASB Issued Standard 2012; FASB plans to issue final standard in 2013	“The boards’ final requirements are similar but not identical”

IASB's Future Work Program following Conclusion of Three-yearly Public Consultation (issued Dec. 2012)

A decade of continuous change should be followed by a period of calm

Prioritize work on the Conceptual Framework

Targeted improvements that respond to the needs of new adopters

Greater attention to the implementation and maintenance of standards

Improve the way in which the IASB develops new standards

FASB's Priorities Post-Convergence

■ Improve U.S. GAAP:

- Through continued development of U.S. GAAP
- Actively participating in the development of IFRS
- Enhancing relationship and communications with other standard setters

■ Top Priorities:

- "Foundational" projects (disclosure framework, conceptual framework)
- Recognition, Measurement, and Presentation projects (pensions, government grants, hedging, financial instruments which characteristics of equity, financial statement presentation)
- Reducing Complexity (including PCC recommendations)
- Interpretations and Education (e.g., revenue transition resource group)

Recent IFRS Foundation Activities



Monitoring Board Assessment for Membership Criteria (issued March 2013)


Accounting Standards Advisory Forum (held first meeting in April 2013)

Global regulatory cooperation




IFRS in the U.S.


SEC's Evaluation of International Accounting Standards 1973-2007




1973
SEC supported the involvement of the AICPA in the creation of the International Accounting Standards Committee (IASC)



1999
SEC took leading role in reforming the IASC



2000
SEC played leading role in the decision by IOSCO to endorse the IASC core principles for cross-border listings




2007
SEC allows Foreign Private Issuers to file IFRS financial statements


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Developments regarding potential U.S. move to IFRS

“The Commission has consistently promoted the development of a single set of high-quality globally accepted accounting standards. I, too, support this goal...”




““We reiterate our call on the IASB and FASB to finalize by the end of 2013 their work on key outstanding projects for achieving a single set of high-quality standards.””





SEC issued Work Plan to potentially incorporate IFRS into the U.S. Financial Reporting System
February 2010



SEC Staff Final Report on IFRS Work Plan
July 2012

Report to the Trustees of the IFRS Foundation Analysis of SEC Final Staff Report
October 2012

G20 Finance Ministers and Central Bank Governors
April 2013

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SEC Registrants

- Approximately 9,000 domestic registrants
- Approximately 1,000 foreign registrants
 - Canada 350
 - Islands 240
 - Europe 100
 - Israel 75
 - Other 205
- FPIs using IFRS
 - 2010: approximately 200
 - 2014: > 500

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Private U.S. Companies

AICPA Council Resolution, May 18, 2008:

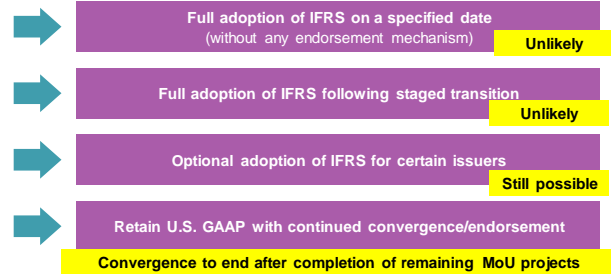
Resolved: That the IASB is hereby designated as the body to establish professional standards with respect to international financial accounting and reporting principles pursuant to Rule 202 and Rule 203

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SEC Work Plan on Incorporation of IFRS Into Financial Reporting System for US Issuers

- The 2010 Statement and Work Plan was issued by the SEC on February 24, 2010
- The purpose of the Work Plan is to consider specific areas and factors relevant to an SEC determination in 2011 of **whether, when, and how** the U.S. should be transitioned to a system incorporating IFRS
- Successful completion of FASB/IASB MoU critical steps in process

Potential approaches to incorporate IFRS into the U.S. financial reporting system considered by the SEC since 2007:



SEC Concerns and Areas of Consideration

Global Application and Enforcement

Development of IFRS

U.S. GAAP reference in laws, contracts etc.

Conversion costs

Recent Speeches - Quotes

“I continue to look forward to a day when there is one set of global accounting standards, and we are taking a number of steps in that direction at the SEC..”
Elisse Walter – SEC Commissioner on May 30, 2013

“The consideration of IFRS for domestic issuers is a complex issue.....the involvement of the SEC Staff has increased over the past several years...”
Paul Beswick – SEC Chief Accountant on May 30, 2013

IFRS in the United States

Next steps and timing??



Mary Jo White
New SEC Chairwoman

New SEC Commissioners
Kara Stein
Michael Piwowar



Paul Beswick
SEC Chief Accountant

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23

Would One Global Set of Accounting Standards Lead to Transparency and Comparability?

Auditing

Litigation Environment

IFRS as issued by the IASB

Regulatory and Enforcement System

Management Incentives

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23

QUESTIONS?

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